BANCO ÁRABE ESPAÑOL

المصرف العربي الإسباني

ANNUAL REPORT

2006

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CHAIRMAN'S STATEMENT

Dear shareholders and friends,

In 1975 "Banco Arabe Español, S.A. – Aresbank" was incorporated with the aim of contributing to the development of the economic cooperation between Spain and the Arab countries by financing foreign trade, promoting investment and attracting funds from the Arab financial markets and, in general, from the international ones.

2006 has been a satisfactory year of profound changes for Aresbank, as it has been culminated the re-capitalization of the entity required for the reestablishment of its activity. During the second part of the year, the shareholders (Libyan Foreign Bank and Kuwait Investment Company S.A.K.) concluded the actions recommended by the Spanish monetary authorities that have allowed Libyan Foreign Bank to acquire the 34.57% stake held by the Spanish shareholders BBVA, Banco de Sabadell, BSCH and SEPI. On November 2006, once executed the purchase of the shares, the necessary increase of capital mentioned in this Annual Report was carried out.

During last year, the Bank maintained a reasonable level of business with its habitual markets. This activity allowed, together with the release of provisions and extraordinary recoveries amounting to Euro 6.5 million, to close the fiscal year 2006 with a slight profit.

At the end of the year, the net-worth of Aresbank including the year's profit amounted to Euro 99.1 million, with a solvency ratio higher than the minimum required by the Bank of Spain.

A new period is opened for Aresbank to reaffirm its predominant position in the sector once again. Thanks to its deep knowledge of foreign markets, our entity is well positioned in the Spanish banking sector to offer high quality services and agile answers to the requests of our clients and correspondents, thus providing them with greater security.

Aresbank faces the challenge of being the bank of reference for all those who wish to open their business towards a market with vast resources and proved soundness: a bank expert in foreign trade with the Arab world.

I would not like to end this letter without expressing my most sincere gratitude towards our shareholders for their backing at every moment and for their trust showed over the past years. Their unconditional support and cooperation has made the reality of a new Aresbank possible. Likewise, I would like to thank all those persons, entities, clients and correspondents whose valuable collaboration we would like to keep on counting with, as well as to our staff for their efforts and loyalty.

Juan Carlos Montañola

S H A R E H O L D E R S

(AS OF DECEMBER 31st, 2006)

LIBYAN FOREIGN BANK	76.42%
KUWAIT INVESTMENT COMPANY S.A.K.	23.16%
CRÉDIT POPULAIRE D'ALGÉRIE	0.42%

B O A R D O F D I R E C T O R S

(AS OF DECEMBER 31st, 2006)

EXECUTIVE DIRECTORS (1)

Mr. JUAN CARLOS MONTAÑOLA
(Executive Chairman)

Mr. AHMED M. ABURKHIS
(Libyan Foreign Bank)

PROPRIETARY DIRECTORS

Mr. OMAR MOHAMED A. SEGHAYER
(Libyan Foreign Bank)

Mr. ABDUELHADI TAHER GIUMA
(Libyan Foreign Bank)

Mr. ABDURAUF SHNEBA
(Libyan Foreign Bank)

Mr. MEHEMED A. RAZZAGHI
(Libyan Foreign Bank)

Mr. AHMAD ABDULQADER MOHAMMAD
(Kuwait Investment Company S.A.K.)

Mr. KHALID H.I. AL-SHAYEA
(Kuwait Investment Company S.A.K.)

CRÉDIT POPULAIRE D'ALGÉRIE
Mr. Kamel Aït Younes

INDEPENDENT DIRECTORS

Mr. JULIO ALVAREZ

Mr. CARLOS KINDER

Mr. AMADO SUBH SUBH

SECRETARY
Mr. FERNANDO IGARTUA

(1) On January 18th, 2007 the Board of Directors delegated Executive functions to Mr. Juan Carlos Montañola (Executive Chairman) and Mr. Ahmed Aburkhis (Board Delegate).

AUDIT COMMITTEE

(AS OF DECEMBER 31st, 2006)

Mr. JULIO ALVAREZ
(Chairman of the Audit Committee)

Mr. ABDUELHADI TAHER GIUMA
(Member of the Board of Directors)

Mr. OMAR MOHAMED A. SEGHAYER (*)
(Member of the Board of Directors)

Mr. AMADO SUBH SUBH (**)
(Member of the Board of Directors)

SECRETARY
Mr. FERNANDO IGARTUA

MANAGEMENT

(AS OF DECEMBER 31st, 2006)

Mr. Juan Carlos Montañola
GENERAL MANAGER

Mr. Ahmed Aburkhis
DEPUTY GENERAL MANAGER

Mr. Luis Junquera
MANAGER, HUMAN RESOURCES DEPARTMENT

Mr. Domingo Lago
MANAGER, LEGAL DEPARTMENT

Mr. Abdel Aziz Mohamed
MANAGER, INFORMATION TECHN. DEPT.

Mr. Hedi Ben Ali Aboukhris
MANAGER, TREASURY DEPARTMENT

Mr. Juan Carlos Alvarez
SUPERVISOR, ACCOUNTING DEPARTMENT

Mr. Jesús Monge
SUPERVISOR, INTERNATIONAL DEPARTMENT

Mr. Manuel Grijota
SUPERVISOR, EXPORT CREDIT DEPARTMENT

Mrs. Carmen Tomás
ASSISTANT MANAGER, BARCELONA BRANCH

Mr. Manuel Poza
SUPERVISOR, INTERNAL AUDIT DEPT.

(*) Resigned at the Board of Directors held on January 18th, 2007

(**) Appointed at the Board of Directors held on January 18th, 2007

RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS ANNUAL REPORT

The information contained in this annual report, including the annual accounts and the Directors' report as well as any additional data deemed necessary, has been drawn up by the members of the Board of Directors of Banco Árabe Español, S.A., in accordance with its accounting records.

The members of the Board of Directors are responsible for establishing not only the accounting policies but for designing, implementing and maintaining the internal control systems to ensure a proper preparation of the annual accounts, the safeguarding of assets, and the reliability of the accounting records in compliance with legal requirements and specifically, with the regulations established by the Bank of Spain.

Our external auditors PRICEWATERHOUSECOOPERS AUDITORES, S.L. examine the annual accounts of Banco Árabe Español, S.A. It is their responsibility to express a professional opinion on said accounts, by carrying out their work in accordance with generally accepted auditing principles, based on the evidence which they deemed necessary and to which they were given free access.

DIRECTORS' REPORT

(THIS DIRECTORS' REPORT IS FREE TRANSLATION OF THE ORIGINAL ISSUED IN SPANISH COUNTERSIGNED BY ALL THE MEMBERS OF THE BOARD)

DIRECTORS' REPORT

1. The economic and financial situation.

The Spanish economy has experienced a high dynamism during the year 2006, with a growth of the GDP of 3.9%. It is surprising the extraordinary duration of the rising cycle of the Spanish economy, in a context of harder monetary conditions and with a price of the crude oil increasing intensely. The factors that contribute to the continuity of this expansive cycle are the strengthening of the integration of Spain into the European market and the intensification of the flow of immigrants toward Spain. The perspectives of the short-term growth continue being favourable. The official forecast for the rate of growth of the GDP for 2007 points to 3.4%. The most active sectors will continue being those of infrastructures, transports, energy and financial institutions.

A reduction of the inflation (measure with the deflator of the GDP) is expected from 3.8% to 3.4%, thus the differential with the Euro area would be still of 1 percentage point higher.

Regarding the labour market, the hiring of Spanish workers and those of other nationalities remain in ascent. The real estate activities, the services to companies and the construction, monopolize half of the employment generated in the last twelve months. The unemployment rate has been stabilized at 8.3% in 2006, four tenth lower than 8.7% of 2005.

The credit interest rates follow a rising path, but it has not been obstacle for the expansion of the credit. The financing obtained by the private sector in the last twelve months, increased in a 23.7%, the faster tendency carried out in the last decade. Certain moderation is perceived in the domestic credit. The credit for housing has passed of growing to annual rates of 24.6% in November, 2005 to 20.8% in October, 2006.

In spite of the increase of the interest rates, the ratio of doubtful accounts to the private sector stays, at the moment, in low levels.

Year 2007 is expected to reach a record by the number and volume of operations, due to the increment of the mergers and acquisitions in the sector, and the entry of funds from Middle East countries.

2. Trends in Aresbank's business.

As in previous years, the Bank's main activity during 2006 remained focused on financial activities related to foreign trade between Spain and certain other countries, mainly Arab and Latin America. Until the last months of the year, the Bank's business was very limited due to its low net-worth.

The changes in the shareholder composition of the Bank and the increase of the capital that took place during the month of November 2006, are the most significant matters during the year 2006.

The conviction shown by the current shareholders in maintaining the operative continuity of the entity has been concluded by the capitalization of the Bank, with a net-worth that will allow the Bank to recover important activity levels to fulfil the corporate purposes for which the entity was created.

The Bank's equity as of December 31st, 2006 was 99.1 million Euros and the capital solvency ratio reached 156.7% that exceeds by far the minimum 8% required by the Spanish Monetary Authorities.

The Bank continued following the set of established guidelines, among which to reach the most effective management of available cash resources, placing deposits on the interbank market.

General expenses decreased by 18% in comparison with those of 2005, mainly as a result of a reduced payroll and the overheads restraint policy applied for some years. General expenses include severance payments amounting to Euro 1.2 million.

3. Relevant events subsequent to December 31st, 2006

The Bank has agreed to sell its stake in Inversiones Hoteleras Los Cabos, S.A. to Solmelia, S.A. at the General Shareholders' Assembly of Inversiones Hoteleras Los Cabos, S.A. held on March 16th, 2007 (Note 3.i).

4. Risk management

The activity of the Bank implies the assumption of certain risks, which should be managed and controlled to guarantee that the entity has the appropriate control systems for the assumed level of risks.

Once assumed, risks are supervised periodically to track trends and, if necessary, for the Bank to take early actions.

All the Bank's risks are approved and continuously controlled from its Head Office, maintaining a prudent profile appropriate to the Bank's experience and capacity.

Risk policy is set and monitored by the Board of Directors. Specifically, it defines the following:

- The Bank's areas of activity.
- Limits applied to customers, groups and countries.
- The levels of authority applied to committees and management.

Moreover, the Audit Committee, established by the Board of Directors, informs the Board about the analysis of both outstanding risks and operational performance.

Distribution of main credit risks by economic activities and geographic areas is detailed in Note 7 to the Annual Accounts. Contingent risks are detailed in Note 18.

Regarding risk of liquidity, the Bank has being following for many years the Board guidelines to have a high level of liquidity at all times. The Bank places its cash surpluses on domestic and international interbank markets.

5. Acquisition of own shares.

As in previous years and due to its equity capital structure, Aresbank has not acquired, held or performed operations with its own shares during 2006.

6. Research & Development and Environmental expenses.

The Bank has not invested in projects related to R&D or protection of the environments.

AUDITORS' REPORT AND ANNUAL ACCOUNTS

(A FREE TRANSLATION FROM THE ORIGINAL IN SPANISH SIGNED BY ALL MEMBERS OF THE BOARD OF DIRECTORS)

PRICEWATERHOUSECOOPERS

Paseo de la Castellana, 43
28046 Madrid
Tel. +34 902 021 111
Fax +34 913 083 566

A free translation of the report on the annual accounts originally issued in Spanish and prepared in accordance with the accounting principles included in the Circular 4/2004. In the event of a discrepancy, the Spanish language version prevails

AUDITORS' REPORT ON THE ANNUAL ACCOUNTS

To the Shareholders of Banco Árabe Español, S.A.

We have audited the annual accounts of Banco Árabe Español, S.A. consisting of the balance sheet at 31 December 2006, the related income statement, the statement of changes in net equity, the cash flow statement and the related notes of the annual accounts corresponding to the year then ended. These financial statements are the responsibility of the Bank's Directors. Our responsibility is to express an opinion on the annual accounts as a whole, based on our audit work performed in accordance with auditing standards generally accepted in Spain, which require examining, on a test basis, evidence supporting the annual accounts and an evaluation of their overall presentation, the accounting principles applied and the estimates made by the Bank's Directors.

In accordance with Spanish Corporate Law, the Directors have presented, for comparative purposes only, for each item of the balance sheet, the income statement, the statement of changes in net equity, the cash flow statement and the related notes to the annual accounts, the corresponding amounts for the previous year as well as the amounts for 2006. Our opinion refers exclusively to the annual accounts for 2006. On 18 May 2006, we issued our audit report on the 2005 annual accounts, in which we expressed a qualified opinion.

In our opinion, the accompanying annual accounts for year 2006 present fairly, in all material respects, the financial position of Banco Árabe Español, S.A. as at 31 December 2006, and the results of their operations, changes in net equity and cash flows for the year then ended, and contain all the information necessary for their interpretation and comprehension in accordance with the accounting principles included in the Circular 4/2004, which are consistent with those applied in the preparation of the financial statements for the previous year.

The accompanying Directors´ report for 2006 contains the information that the Bank's Directors consider relevant to the Bank, the development of its business and other matters and does not form an integral part of the annual accounts. We have verified that the accounting information contained in the aforementioned Directors' report agrees with that of the annual accounts for 2006. Our work as auditors is limited to checking the Directors' report within the scope already mentioned in this paragraph and it does not include a review of information other than that obtained from the Bank's audited accounting records.

PricewaterhouseCoopers Auditores, S.L.

José María Sanz Olmeda
Partner

30 March 2007

PricewaterhouseCoopers Auditores, S. L. - R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79031290

BALANCE SHEETS FOR THE YEARS ENDED DECEMBER 31st, 2006 AND 2005

(EXPRESSED IN THOUSAND OF EUROS)

ASSETS	2006	2005
CASH AND BALANCES WITH CENTRAL BANKS *(Note 6)*	**1,922**	**1,568**
FINANCIAL ASSETS HELD FOR TRADING	--	--
OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	--	--
AVAILABLE-FOR-SALE FINANCIAL ASSETS	--	--
LOANS AND RECEIVABLES *(Note 7)*	**100,196**	**76,623**
Loans and advances to credit institutions	94,415	65,272
Loans and advances to other debtors	5,267	10,383
Other financial assets	514	968
HELD-TO-MATURITY INVESTMENTS *(Note 8)*	**609**	**624**
Memorandum item: loaned or pledged	*609*	*614*
CHANGES IN THE FAIR VALUE OF THE HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	--	--
HEDGING DERIVATIVES	--	--
NON-CURRENT ASSETS HELD FOR SALE *(Note 9)*	**4,381**	**5,896**
Equity instruments	4,314	4,622
Tangible assets	67	1,274
INVESTMENTS	--	--
INSURANCE CONTRACTS LINKED TO PENSIONS	--	--
TANGIBLE ASSETS *(Note 10)*	**29,140**	**28,224**
For own use	10,779	9,790
Investment property	18,361	18,434
INTANGIBLE ASSETS	--	--
TAX ASSETS *(Note 11)*	**2,503**	**1,628**
Current	1,995	1,087
Deferred	508	541
PREPAYMENTS AND ACCRUED INCOME *(Note 12)*	**9**	**13**
OTHER ASSETS	--	--
TOTAL ASSETS	**138,760**	**114,576**

OFF-BALANCE SHEET ITEM		
CONTINGENT EXPOSURES *(Note 18)*	**54,005**	**36,277**
Financial guarantees	54,005	36,277
CONTINGENT COMMITMENTS *(Note 18)*	**3,248**	**44**
Drawable by third parties	3,242	38
Other commitments	6	6

The accompanying Notes 1 to 32 are an integral part of the Annual Accounts as of December 31st, 2006 and 2005. The financial statements are originally issued in Spanish and prepared in accordance with the Circular 4/2004, of the Bank of Spain. In the event of a discrepancy, the Spanish-language version prevails.

BALANCE SHEETS FOR THE YEARS ENDED DECEMBER 31st, 2006 AND 2005

(EXPRESSED IN THOUSAND OF EUROS)

LIABILITIES	2006	2005
FINANCIAL LIABILITIES HELD FOR TRADING	**--**	**--**
OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	**--**	**--**
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH EQUITY	**--**	**--**
FINANCIAL LIABILITIES AT AMORTISED COST ***(Note 13)***	**35,394**	**100,060**
Deposits from credit institutions	32,678	95,886
Deposits from other creditors	2,042	3,602
Other financial liabilities	674	572
CHANGES IN THE FAIR VALUE OF THE HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	**--**	**--**
HEDGING DERIVATIVES	**--**	**--**
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	**--**	**--**
PROVISIONS ***(Note 14)***	**2,737**	**3,826**
Provisions for taxes	846	895
Provisions for contingent exposures and commitments	1,557	1,587
Other provisions	334	1,344
TAX LIABILITIES *(Note 11)*	**899**	**--**
Current	899	--
Deferred	--	--
ACCRUED EXPENSES AND DEFERRED INCOME ***(Note 12)***	**581**	**612**
OTHER LIABILITIES	**--**	**--**
Other	--	--
EQUITY HAVING THE NATURE OF A FINANCIAL LIABILITY	**--**	**--**
TOTAL LIABILITIES	**39,611**	**104,498**

SHAREHOLDERS' EQUITY		
VALUATION ADJUSTMENTS	**--**	**--**
OWN FUNDS ***(Note 15)***	**99,149**	**10,078**
Capital or endowment fund ***(Note 16)***	100,002	18,032
Issued	100,002	18,032
Reserves ***(Note 17)***	(902)	(8,983)
Accumulated reserves (losses)	(902)	(8,983)
Profit or loss for the period	49	1,029
TOTAL SHAREHOLDERS' EQUITY	**99,149**	**10,078**
TOTAL LIABILITIES AND EQUITY	**138,760**	**114,576**

The accompanying Notes 1 to 32 are an integral part of the Annual Accounts as of December 31st, 2006 and 2005. The financial statements are originally issued in Spanish and prepared in accordance with the Circular 4/2004, of the Bank of Spain. In the event of a discrepancy, the Spanish-language version prevails.

INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31st, 2006 AND 2005

(EXPRESSED IN THOUSAND OF EUROS)

	2006	2005
INTEREST AND SIMILAR INCOME *(Note 20)*	**3,656**	**2,946**
INTEREST EXPENSES AND SIMILAR CHARGES *(Note 21)*	**(4,368)**	**(3,465)**
Other	(4,368)	(3,465)
RETURN ON EQUITY INSTRUMENTS	**--**	**--**
Other equity instruments	--	--
A) FINANCIAL MARGIN	*(712)*	*(519)*
FEES AND COMMISSIONS INCOME *(Note 22)*	**993**	**1,142**
FEES AND COMMISSIONS EXPENSES *(Note 23)*	**(335)**	**(405)**
GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES (NET) *(Note 24)*	**(5)**	**1,156**
EXCHANGE DIFFERENCES (NET)	**(176)**	**42**
B) ORDINARY MARGIN	*(235)*	*1,416*
OTHER OPERATING INCOME *(Note 25)*	**1,244**	**1,173**
PERSONNEL EXPENSES *(Note 26)*	**(4,943)**	**(6,181)**
OTHER ADMINISTRATIVE EXPENSES *(Note 27)*	**(1,803)**	**(2,067)**
DEPRECIATION AND AMORTISATION *(Note 29)*	**(254)**	**(274)**
Tangible assets	(254)	(274)
OTHER OPERATING EXPENSES	**(2)**	**(22)**
C) OPERATING INCOME	*(5,993)*	*(5,955)*
IMPAIRMENT LOSSES (NET) (Note 30)	**3,975**	**(57)**
Loans and receivables	3,802	(227)
Non-current assets held for sale (Note 9)	173	170
Investments	--	--
PROVISIONS EXPENSES (NET) (Note 14)	**41**	**1,165**
OTHER GAINS *(Note 31)*	**2,089**	**7,432**
Gains on disposals of tangible assets	--	6,046
Other	2,089	1,386
OTHER LOSSES *(Note 31)*	**(63)**	**(1,556)**
Losses on disposals of tangible assets	--	--
Other	(63)	(1,556)
D) PROFIT OR LOSS BEFORE TAXES	*49*	*1,029*
INCOME TAX	**--**	**--**
E) PROFIT OR LOSS FROM ORDINARY ACTIVITY	*49*	*1,029*
PROFIT OR LOSS FROM DISCONTINUED OPERATIONS (NET)	**--**	**--**
F) PROFIT OR LOSS FOR THE PERIOD	*49*	*1,029*

The accompanying Notes 1 to 32 are an integral part of the Annual Accounts as of December 31st, 2006 and 2005. The financial statements are originally issued in Spanish and prepared in accordance with the Circular 4/2004, of the Bank of Spain. In the event of a discrepancy, the Spanish-language version prevails.

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED ON DECEMBER 31st, 2006 AND 2005

(EXPRESSED IN THOUSAND OF EUROS)

	2006	2005
NET INCOME RECOGNISED DIRECTLY IN EQUITY	**--**	**--**
PROFIT OR LOSS FOR THE PERIOD	**49**	**1,029**
Profit or loss published	49	1,029
Restatements owing to accounting policy changes	--	--
Restatements owing to errors	--	--
TOTAL INCOME AND EXPENSES FOR THE PERIOD	**49**	**1,029**

CASH-FLOW STATEMENTS
FOR THE YEARS ENDED ON DECEMBER 31st, 2006 AND 2005

(EXPRESSED IN THOUSAND OF EUROS)

	2006	2005
1 CASH-FLOW FROM OPERATING ACTIVITIES		
Profit or loss for the year	**49**	**1,029**
Adjustments:	(3,762)	(6,880)
- Amortisation of tangible assets (+)	254	274
- Impairment losses (net) (+/-)	(3,975)	57
- Provisioning expense (net) (+/-)	(41)	(1,165)
- Gains or losses on disposal of tangible assets (+/-)	--	(6,046)
Adjusted Profit or loss	**(3,713)**	**(5,851)**
Net increase or decrease in operating assets	**24,444**	**(71,150)**
- Financial assets held for sale	--	--
- Loans and receivables	23,573	(71,692)
▪ Loans and advances to credit institutions	29,143	(49,582)
▪ Loans and advances to other debtors	(5,116)	(6,494)
▪ Other financial assets	(454)	(15,616)
- Other operating assets	871	542
Net increase or decrease in operating liabilities	**(60.802)**	**(80,739)**
- Financial liabilities at amortised cost	(64,666)	(72,985)
▪ Deposits from credit institutions	(63,208)	(60,570)
▪ Deposits from other creditors	(1,560)	(12,176)
▪ Other financial liabilities	102	(239)
- Other operating liabilities	3,864	(7,754)
TOTAL NET CASH-FLOW FROM OPERATING ACTIVITIES (1)	**(88,959)**	**(15,440)**
2 CASH-FLOW FROM INVESTING ACTIVITIES		
Investments (-)	**--**	**--**
Divestments (+)	**291**	**16,192**
- Group entities, jointly controlled entities and associates	--	--
- Tangible assets	291	8,160
- Held-to-maturity investments	--	--
- Other assets	--	8,032
TOTAL NET CASH-FLOW FROM INVESTING ACTIVITIES (2)	**291**	**16,192**
3 CASH-FLOW FROM FINANCING ACTIVITIES		
- Issuance / Redemption of equity or endowment fund	**89,922**	**--**
- Paid dividends / interest	**--**	**--**
- Other Items related with financing activities	(900)	**--**
TOTAL NET CASH-FLOW FROM FINANCING ACTIVITIES (3)	**89,022**	**--**
4 EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS (4)	**--**	**--**
5 NET INCREASE OR DECREASE IN CASH AND CASH EQUIVALENTS (1 + 2 + 3 + 4)	**354**	**752**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**1,568**	**816**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**1,922**	**1,568**

NOTES TO THE 2006 ANNUAL ACCOUNTS

1. GENERAL INFORMATION

The Annual Accounts of Banco Árabe Español, S.A, are drawn up by the Board of Directors of the Bank.

Banco Árabe Español, S.A. was established by public deed dated April 1st, 1975. The Bank is registered in the Mercantile Registry of Madrid, on page nº 28,537, sheet 18, 1st inscription of General Companies Volume 3,740.

Its By-Laws were modified according to the Companies Act in place, by public deed authorized on June 24th, 1992 by the Public Notary Mr. Antonio Uribe Sorribes, with nº 2,025 of protocol, registered in the Mercantile Registry of Madrid, on Volume 6,823, page 81, sheet M-111.123, inscription 140.

In accordance with the authorization of the Ministry of Economy and Treasury of June 20th, 2006, the Extraordinary General Shareholders' Assembly agreed on November 23rd, 2006 to modify the article number 3 of the Bank's By-laws (Purpose of the company) as follows:

" The main object of the Bank is to contribute to the development of the economic cooperation between the Arab countries and Spain by financing foreign trade and promoting investment and attracting funds from Arab and International Financial Markets.

Notwithstanding the above mentioned, the corporate object of the Bank consists of all activities relating to banking operations allowed by the Spanish legislation and not forbidden to banking entities except the reception of funds from individuals which will be limited to those who are involved in foreign trade transactions with the Bank.

The activities included in the company's object may be carry out by the company wholly or partly indirectly, by means of holding shares or interests in companies having identical or similar purpose. "

The Bank's registered address is Paseo de la Castellana 257, Madrid, where its Head Office is located.

Since April 2nd, 1975, Banco Árabe Español, S.A. is registered at the Bank of Spain's Special Registry for Banks and Bankers under number 0136.

2. GENERAL OBJECTIVES

The Bank's general objectives can be summarized as follows:

- To increase the economic cooperation between Spain and the Arab countries by financing foreign trade and other investments and trying to increase its resources through the fundraising of deposits from Arab and international financial markets.
- To identify and evaluate investment opportunities in both existing companies and new projects.

- To offer Spanish technical experience and know-how for the implementation of economic and industrial projects in the Arab world.
- To promote joint ventures.
- To cooperate with Spanish Banks and other institutions channelling financial resources coming from international or Arab monetary markets.
- To strengthen relations and cooperation between Arab and Spanish businessmen.

3. BASIS OF PRESENTATION OF THE ANNUAL ACCOUNTS

a) Basis of presentation

On January 1st, 2005, the "International Financial Reporting Standards" (IFRS) came into effect in Spain for some economic sectors, credit institutions among others. For this reason the Bank of Spain, as accounting regulator of the Spanish banking sector, developed and adapted the financial reporting rules and formats for financial institutions by means of its Circular 4/2004, of December 22nd, applicable from the year 2005 onwards.

As a consequence, the financial statements of the years 2006 and 2005 have been prepared in conformity with the criteria of the above financial reporting rules issued by the Bank of Spain.

There is no principle and accounting rule or compulsory valuation criteria with a significant effect that has not been applied in the preparation of these Annual Accounts. Note 5 displays a summary of the most important principles and accounting rules and valuation criteria applied.

The Bank's Directors are responsible for the information contained in these Annual Accounts.

The Annual Accounts of the year 2006 have been formulated by the Board of Directors of the Bank on the meeting held on March 29th, 2007 and they will be presented to the General Shareholders' Assembly on March 30th, 2007 for approval, which is expected to adopt them without any significant changes.

b) Accounting principles

The Bank's Annual Accounts were prepared on the basis of the accounting criteria established by the Bank of Spain in its Circular 4/2004, as set forth in Note 5.

Except as otherwise indicated, the Annual Accounts are presented in thousand of Euros.

c) External Auditors

The Annual Accounts of Banco Árabe Español, S.A. as of December 31st, 2006 have been audited by PriceWaterhouseCoopers Auditores, S.L. that also audited those of previous year.

In accordance with the additional provision 14th of the " *Ley 44/2002 de Medidas de Reforma del Sistema Financiero"* (Spanish law on amendment measures on the financial market), dated November 22nd, their fees for auditing the Annual Accounts of the year 2006 amounted to 68 thousand Euros (62 thousand Euros in 2005). The fees for other services rendered by the audit firm amounted to 53 thousand Euros (19 thousand Euros in 2005).

d) Risk control

According to the European Commission recommendations on the publication of information regarding financial instruments (risk management), Aresbank has included in the Directors' Report the most significant data.

e) Environmental information

The Bank has adopted appropriate measures with respect to environmental protection and enhancement and to the minimization, where appropriate, of the environment impact, in compliance with the relevant current regulations. The Bank did not make environmental investments in 2006 and 2005, nor did it consider it necessary to record any provision for environmental risks and charges, and does not consider that there are significant contingencies relating to environmental protection and enhancement.

f) Customer Services Department activity

Ministry of Economy Order 734/2004 of March 11th, laid down the obligation for the Customer Services Departments to prepare a report on the conduct of their functions during the preceding year.

In accordance with this legal requirement, the Customer Services Department prepared the report on its activities in 2006, which was submitted to the Bank's Board of Directors at its meeting on March 29th, 2007.

This report stated that the Customer Services Department of Banco Árabe Español, S.A. had received a claim from one customer due to some commissions charged for the confirmation of a documentary credit. During 2005, this Services Department did not received any claim.

g) Net-worth

Current net-worth regulations are basically stipulated by Law 13/1992, of June 1st, as well as by Circular 5/1993, of March 26th, and successive amendments thereto, in special, Law 5/2005, of April 22nd and Circulars 12/1993, 3/2003, 3/2005 and 2/2006, among others.

h) Deposit Guarantee Fund

The entity is integrated in the Deposit Guarantee Fund. The contributions made by the entity in 2006 to this Fund amount to, approximately, 2 thousand Euros (10 thousand Euros in 2005) that are booked in "Other operating expenses" account in the Income Statement.

i) Subsequent Events

During February 2007 the Tax Authorities has credited the Bank the amount of 2,087 thousand Euros, which corresponds to the principal plus interest due to the T.E.A.C. resolution, partially upholding an appeal of Aresbank against a Sánchez Polainas's guarantee enforcement by the Tax Authorities. The Bank recognised the above principal of 1,691 thousand Euros when it was notified of the resolution during the year 2006. Aresbank has not recognized in the Income Statement the amount of 396 thousand Euros corresponding to the above interests accrued, until the date of their payment (Note 30).

The Bank has agreed to sell its stake in Inversiones Hoteleras Los Cabos, S.A. (Note 9) to Solmelia, S.A. on the General Shareholders' Assembly of Inversiones Hoteleras Los Cabos, S.A. held on March 16th, 2007.

4. PROFIT DISTRIBUTION

The proposed distribution of the income for 2006 which Banco Árabe Español, S.A. Board of Directors will submit for approval by the General Shareholders' Meeting, and that previously approved for 2005, are the following:

	Thousand Euros	
	2006	2005
• Net profit for the year	49	1,029
Distribution to:		
• Results from previous years	3	1,029
• Other negative reserves	46	--

5. ACCOUNTING PRINCIPLES AND VALUATION METHODS APPLIED

The significant accounting principles and standards and valuation methods applied in preparing the accompanying Annual Accounts are described below. They basically meet those set forth in the Bank of Spain Circular 4/2004 :

5.1 Going concern principle

The Annual Accounts have been formulated under the going concern basis, considering a limitless period in business.

5.2 Accrual basis of accounting

Interest income and expenses are recognized on accrual basis using the effective interest method. In accordance with standard banking practices, transactions are recorded on the date they take place, which may differ from their value date, which is the basis for computing interest income and expenses. However, following the Bank of Spain regulations, accrued interests related to doubtful debts, including those from country risk transactions, are recorded as income when collected.

Income from financial commissions related to the opening of documentary credits or loans that do not correspond to expenses directly incurred in the execution of the transactions are apportioned over the life of the transaction, as another component of the effective profitability of the documentary credit or loan.

5.3 Financial Assets

Financial Assets are classified in the Balance Sheet with the following criteria:

a) Cash and Balances with Central Banks relating to the cash balances and the balances held at the Bank of Spain and other Central Banks (Note 6).

b) Loans and Receivables, which includes financial assets that are not traded in an active market and are not required to be valued at fair value, whose cash flows are of a determined or determinable amount, and in which all the disbursement made by the entity will be recovered, absent reasons imputable to the debtor's solvency. This category includes both the lending arising from the typical credit activity and the amounts of cash drawn and pending repayment by the customers as loans or the deposit placed with other companies, however legally instrumented, financial guarantees, unlisted debt securities, and the debts of purchasers of goods or users of services that form part of the Bank's business (Note 7).

c) Held-to-maturity investments, which includes debt securities with fixed maturity and cash flow of determined amount that the entity has decided to hold until redemption, basically because it has the financial capability to do so or has related financing (Note 8).

d) Non-current assets held for sale, corresponding to the book value of those items, whether individually or integrated in a disposal group or being part of a group of units that will be disposed of together (discontinued operations), whose sale is highly probable, given the current conditions of these assets, within one year from the reporting date of the Annual Accounts. Moreover, investments in jointly controlled entities and associates will be considered as "Non-current assets held for sale" when they meet the requirements above mentioned.

   Therefore, the recovery of the book value of these items will foreseeably occur through the price obtained in disposal of them (Note 9).

Financial assets are generally initially recorded at cost. Subsequent valuations at each accounting close are made as follows:

1) Financial assets are valued at fair value, except for Loans and Receivables, the Held-to-maturity Investments portfolio, Equity Instruments whose fair value cannot be reliably determined, Investments in Associates, Jointly Controlled Entities, Group Entities and the financial derivatives whose underlying asset is such equity instrument and are settled by delivery thereof.

2) Loans and Receivables and Held-to-maturity Investments portfolio are valued at their amortised cost, using for determining this cost the effective interest method. Amortised cost is the cost of acquisition of a financial asset adjusted by the repayments of principal and the portion allocated to the income statement, using the effective interest method, of the difference between the initial cost and the

related repayment value at maturity, minus any reduction of value for impairment directly recognized as a decrease in the amount of the asset or through a value adjustment account.

3) The investments in the capital of other entities whose fair value cannot be determined with sufficient objectivity, are maintained at their cost, adjusted, if appropriate, by the losses for impairment that may have occurred.

The variations in the book value of financial assets are generally recorded with a contra-item in the Income statement, separating those arising from the accrual of interest and similar items which are recorded under the "Interest and similar income" caption, from those arising for other causes, which are recorded at the net amount in the "Gains and Losses of Financial Assets and Liabilities" caption in the Income Statement.

However, the variations in the book value of the items included under the "Non-Current Assets held for sale" caption that met certain conditions are recorded with a contra-item under the "Equity Valuation Adjustments" caption. Impairment losses are recognised in the Income Statement as well as any subsequent increase in value up to the amount of any impairment losses previously recognised.

5.4 Non-current assets held for sale

Property assets or other non-current assets foreclosed by the Bank in full or partial fulfilment of the payment obligations of its debtors, will be considered "Non-current assets held for sale", except those that the Bank decides to hold for continuing use.

"Non-current assets held for sale" are generally measured at the lower of their fair value less the costs of their sale and their book value calculated at the date of their classification as held for sale. "Non-current assets held for sale" shall not be depreciated or amortised during the time they remain in this category (Note 9).

5.5 Financial Liabilities

Financial Liabilities are recognised in the Balance Sheet as "Financial Liabilities at Amortised Cost". They are financial liabilities not included in any of the other captions of the Balance Sheet, which relate to typical fund-raising activities, regardless of how instrumented and of their maturity (Note 13).

5.6 Impairment of value of financial assets

The book value of financial assets is generally adjusted with a charge to the Income Statement when there is objective evidence that a loss has arisen by impairment, which occurs :

i) In case of debt instruments (credit and securities representing debt), if after their initial recognition an event occurs or the combined effect arises of several events with a negative impact on their future cash flows.

ii) In case of equity instruments, if after their initial recognition an event occurs or the combined effect arises of several events signifying that it will not be possible to recover their book value.

As a general rule, the adjustment of the book value of financial instruments for impairment is charged to the Income Statement of the period in which such impairment is disclosed, and the recovery of the previously recorded losses for impairment, if it arises, is recognized in the Income Statement of the period in which the impairment is eliminated or reduced. If the recovery of any recorded amount for impairment is considered remote, it is eliminated from the Balance Sheet. Nonetheless the entity may take the necessary action to attempt to achieve collection until the statute of limitations of its rights has definitively expired, they are forgiven or for other reasons.

In the case of debt instruments valued at amortised cost, the amount of the losses incurred for impairment is equal to the negative difference between their book value and the present value of their estimated future cash flows. In the case of listed debt instruments, instead of the present value of future cash flows, their market value is used, provided that it is sufficiently reliable to be considered representative of the value, which the entity might recover.

The estimated cash flows of a debt instrument are all the amounts of principal and interest that the entity estimates it will obtain during the life of the instrument. Consideration is given in this estimate to all relevant information available at the date of preparation of the Annual Accounts, which provides data about the possibility of future collection of the contractual cash flows. Also, in estimating the future cash flows of secured instruments, regarding the flows that would be obtained from realization thereof, less the amount of the cost necessary to obtain and subsequently sell them, regardless of the probability of execution of the guarantee.

In calculating the present value of the estimated future cash flows, the discount rate used is the original effective interest rate of the instrument, if the contractual rate is fixed; if the contractual rate is floating, the discount rate used is the effective interest rate at the date of the financial statements determined in accordance with the contract conditions.

The portfolios of debt instruments, contingent exposures and contingent commitments, regardless of by whom owned, of how instrumented or how guaranteed, are analysed to determine the Bank's credit risk exposure and to estimate the coverage requirement for impairment of value. For preparation of the financial statements, the entity classifies its operations based on its credit risk, analysing separately the risk of insolvency attributable to the customer and the country risk, if any, to which the operations are exposed.

Objective evidence of impairment is individually determined for all significant debt instruments and individually or collectively for groups of debts instruments, which are not individually significant. If a specific instrument cannot be included in any group of assets with similar risk characteristics, it is analysed exclusively on an individual basis in order to determine whether it is impaired and, if appropriate, to estimate the loss for impairment.

The collective evaluation of a group of financial assets to estimate their losses for impairment is performed as follows:

i) Debt instruments are included in groups which have similar credit risk characteristics, indicating the capability of the debtors to pay all the amounts of principal and interest in accordance with the contract conditions. The credit risk characteristics considered for grouping the assets include the type of instrument, the debtor's activity sector, the geographical area of the activity, the type of guarantee, the age of the past due amounts and any other relevant factor for estimating the future cash flows.

ii) The future cash flows of each group of debt instruments are estimated on the basis of past experience of losses in the sector as calculated by the Bank of Spain for instruments with credit risk characteristics similar to those of the group concerned, after making the necessary adjustments to adapt the historical data to current market conditions.

iii) The loss for impairment of each group is the difference between the book value of all the debt instruments in the group and the present value of their estimated future cash flows.

Debt instruments not valued at fair value through profit or loss, contingent exposures and contingent commitments are classified on the basis of the risk of insolvency attributable to the customer or to the transaction in the following categories: standard risk, substandard risk, doubtful risk due to customer arrears, doubtful risk for reasons other than customer arrears and write-off risk. In the case of debt instruments not classified as standard risk, an estimate is made, based on the experience of the entity and of the sector, of the specific coverage required for impairment, taking into account the age of the unpaid amounts, the guarantees provided and the economic situation of the customer and, if appropriate, of the guarantors. This estimate is generally based on arrears schedules based, in turn, on the experience of the entity and the information it has of the sector.

Similarly, debt instruments not valued at fair value through profit or loss and contingent exposures, regardless of who the customer may be, are analysed to determine their credit risk attributable to country risk. Country risk is deemed to arise with customer resident in a given country because of circumstances other than habitual commercial risk.

The Circular 4/2004 of the Bank of Spain brings in the obligation to make a provision for inherent losses incurred, determined individual or collectively, that are those held by all the risk transactions assumed by the entity since the moment it grants the risk. It also sets forth maximum and minimum limits that shall be, at all times, between 33% and 125%, and a mechanism for the annual allowance of this provision that provide the risk variation in the year, and the specific allocations taken during the year for specific doubtful risks.

Additionally, the Circular requires that the non-payment of an instalment will mean the non-payment of the whole transaction.

5.7 Transactions and balances in foreign currency

The Bank's functional currency is the Euro and, therefore, all balances and transactions denominated in currencies other than the Euro are deemed to be denominated in foreign currency.

Monetary assets and liabilities denominated in foreign currency are translated into Euro at the year-end average spot exchange rate on the date of the financial statements, as published by the European Central Bank. The exchange differences arising in the translation are recorded, generally, for their net amount in the caption "Exchange Differences" of the Income Statement.

The counter value in Euros of the assets and liabilities denominated in foreign currency (US dollars mainly) as of December 31st, 2006 amounts, respectively, to 8,612 and 1,900 thousand Euros (67,096 and 67,055 thousand Euros, respectively, as of December 31st, 2005).

5.8 Tangible fixed assets

"Tangible Assets for Own Use" are the property items of which the entity considers it will make ongoing use, and the property items acquired for finance lease purposes. These assets are valued at cost minus accumulated depreciation and, if appropriate, minus any loss for impairment disclosed by comparing the net value of each item with its recoverable amount.

Depreciation is calculated systematically by the straight-line method, applying the years of estimated useful life of the items to the acquisition cost of the assets minus their residual value. In the case of the land on which the buildings and other structures are located, the land is deemed to have an indefinite life and therefore, it is not depreciated. The annual provisions for depreciation of tangible assets are charged to the Income Statement and are calculated on the basis of the following averaged years of estimated useful life of the various groups of items.

All assets are depreciated according to Royal Decree 537/1997 as of April 14th.
The annual depreciation coefficients used are the following:

	Coefficient
Property	2%
Furniture and installations	8% to 12%
Office and EDP equipments	12% to 25%

The cost of upkeep and maintenance of the "Tangible Assets for Own Use" are recognised as an expense of the period in which they are incurred.

The investment property included in the caption "Tangible Assets" comprises the net values of the land, buildings and other structures which the Bank holds for rental or for obtaining a capital gain on their sale as a result of future increases in their respective market prices.

The methods applied by the Bank to recognize the cost of assets assigned in operating lease transactions, to determine their depreciation and to estimate their respective useful lives and to record their losses for impairment, are the same as those described for "Tangible Assets for Own Use".

5.9 Leases

Lease contracts are presented on the bases of the economic substance of the transaction regardless of their legal form and are classified from the outset as finance or operating leases. The Bank has not carried out any financial lease agreement as of December 31st, 2006 or 2005.

In the operating leases contracts, when the Bank is the lessor, the acquisition cost of the assets leased is recorded under the "Tangible Assets" caption. These assets are depreciated in accordance with the policies applied for similar tangible assets. Income from lease contracts is recognised in the Income Statement using a straight-line method. On the other hand, when the Bank is the lessee, the lease expenses, including incentives, if any, granted by the lessor, are recorded on a straight-line basis in the Income Statement.

5.10 Prepayments and accrued income /expenses (assets & liabilities)

They include the balance of the accrual accounts, except accrued interests that are recognised in the captions where the financial instruments which give rise to them are recognised (Note 12).

5.11 Contingent Assets

Contingent assets are possible assets that arise from past events and whose existence is conditional on, and will be confirmed only by the occurrence or non-occurrence of events beyond the control of the Bank.

Contingent assets are not recognised in the Balance Sheet or in the Income Statement. The Bank informs of their existence provided that it is probable that these assets will give rise to an increase in resources embodying economic benefits.

5.12 Provisions and contingent liabilities

Provisions are present obligations of the entity arising from past events whose nature at the balance sheet date is clearly specified but whose amount or settlement date is uncertain and that the entity expects to settle on maturity through an outflow of resources embodying economic benefits.

The entity recognises in the Balance Sheet all the significant provisions when it forecasts that it is more likely that the obligation might have to be settled.

Provisions are measured taking into account the best available information on the consequences of the event that gives rise to the obligation, and are reviewed at each closing date and adjusted in the Balance Sheet. They are used to meet the specific obligation for which they were originally recognised, and are fully or partially released when these obligations cease to exist or decrease.

Provisions are classified according to the obligations covered (Note 14).

As of December 31st, 2006 and 2005, there were several legal proceedings and claims brought against the entity arising from the habitual performance of its activities. The legal advisors and the Directors of the Bank consider that the outcome of these legal proceedings and claims will not have any significant negative effect additional to that included as a provision in the Annual Accounts of the years in which they are concluded.

Contingent liabilities are possible obligations of the entity that arise as a result of past events and whose existence is conditional on the occurrence or non-occurrence of one or more future events beyond the control of the entity. They include the present obligations of the entity when it is not probable than an outflow of resources embodying economic benefits will be required to settle them or when, in extremely rare cases, their amount cannot be measured with sufficient reliability.

Information regarding the aforementioned contingent liabilities, if any, is disclosed in the Notes to the Financial Statements.

5.13 Pension commitments

As of December 31st, 2006 and 2005, Aresbank's pension commitments with the serving and retired employees were externalised by means of defined contribution pension plan and an insurance contract.

These pension fund commitments cover the rights derived from:

a) the Collective Agreement,
b) the agreements approved by the Board of Directors in 1991 for the Management and certain employees, extending the latter agreement to all of the employees, without exception, by means of an agreement approved by the Board of Directors dated on October 18th, 2002.

As a result of these operations, Aresbank has no actuarial or financial risk by reason of the mentioned commitments.

<u>Serving Employees</u>

On December 27th, 2002, Banco Árabe Español, S.A. instrumented the externalisation of their pension commitments to their serving employees by means of the externalisation of the internal funds.

As of January 1st, 2003, the Bank undertook the compromise to contribute annually to this fund as follows:

- An amount equal to 15 days of current gross salary of each employee on the date of a new contribution, plus

- the percentage application equivalent to the increase of salary of each employee, always on the initial contribution (that is to say, in a non cumulative basis) and between 3% minimum and 5% maximum.

The total amount contributed in 2006 amounted to 230 thousand Euros. In 2005, it amounted to 238 thousand Euros.

The pension fund management company (BanSabadell Pensiones) has mathematical reserves for a total of 3,317 thousand Euros as of December 2006 and 3,847 thousand Euros as of December 2005.

Retired Employees

The pension fund commitments with the retired employees were externalised by means of an insurance contract made with Banco Vitalicio.

In accordance with the insurance contract above mentioned, Aresbank has transferred to the insurance company all their pension commitments to retired employees and ceased to have any actuarial, financial or other risk in this connection.

5.14 Income tax

The Bank recognises as expenses the Income Tax that is calculated based on the annual results, taking into account possible timing differences between book profit and taxable income, as well as applicable deductions. The difference between corporate tax payable and the amount actually charged to the Income statement due to timing differences is recorded as either deferred tax assets or liabilities.

During the year 2006, there have not been any changes in the tax rates applicable in comparison with the previous year. Nevertheless, from 2007 onwards, the Law 35/2006 (Personal Income Tax and partial amendment of the Laws on Corporate Income Tax, Income of Non-resident and Wealth tax) gave approval to a reduction of the Corporate Income tax rate from 35% in 2006 to 32.5% in 2007 and 30% starting in 2008.

The Rule 42 of the Circular 4/2004 establishes that the quantification of the assets and liabilities for deferred taxes is done applying the tax rate that it is expected to be recovered or settled to the timing differences or tax credit. As of December 31st, 2006, the entity has deferred tax assets.

In accordance with the prudent criteria and based on its net-worth situation, the Bank has not recognised any tax assets derived from the negative taxable bases pending to be offset for the years ending December 31st, 2006 and 2005.

5.15 Severance payments

In accordance with the Labour Laws in force, the entities must pay an indemnity to those employees that under certain circumstances must be laid-off. These indemnities will be charged against results as soon as there is a plan that obliges to carry out their payment.

5.16 Financial guarantees

Financial guarantees are contracts whereby the Bank undertakes to pay certain specific amounts for a third party if the latter does not do so, regardless of their legal form, which may include, inter alia, that of a bond, guarantee, irrevocable documentary credit issued or confirmed.

Financial guarantees are classified on the basis of the risk of insolvency attributable to the customer or the transaction and, if appropriate, the need is estimated for recording provisions for them using criteria similar to those indicated in Note 5.6 for the debt instruments valued at amortised cost.

If a provision for financial guarantees is needed, commissions pending accrual that are recorded as "Accrued Expenses and Deferred Income" on the Liabilities side of the Balance Sheet, shall be reclassified to the corresponding provision.

5.17 Cash-Flow Statement

The concepts used in the Cash-Flow Statement have the following definitions:

a) Cash-flows that are inflows and outflows of cash and cash equivalents, the latter being defined as highly liquid short-term investments with low risk of alternation in value.

b) Operating activities that are typical activities and other activities that cannot be classified as lending or funding.

c) Investing activities, relating to the acquisition, sale or disposal by other means of long-term assets and other investments not included in cash and cash equivalents.

d) Financing activities which are activities giving rise to changes in the size and composition of net worth and of liabilities that do not form part of operating activities and long-term financial liabilities.

6. CASH AND BALANCES WITH CENTRAL BANKS

This caption on the Balance Sheet reflects available cash as well as deposits maintained in the Bank of Spain in accordance with the compulsory reserves ratio, and the blocked deposits tied to guarantees. Its breakdown is the following:

	Thousand Euros	
	2006	**2005**
Cash	91	174
Bank of Spain	1,831	1,394
- Other	1,831	1,394
	1,922	**1,568**

7. LOANS AND RECEIVABLES

The detail of this caption as of December 31st, 2006 and 2005 is as follows:

	Thousand Euros	
	2006	**2005**
Loans and advances to credit institutions	94,415	65,272
Loans and advances to other debtors	6,269	11,837
Other financial assets	514	968
	101,198	78,077
Impairment adjustments	(1,002)	(1,454)
Loans and advances to other debtors	*(1,002)*	*(1,454)*
	100,196	**76,623**

The breakdown by currency, residual maturity and sectors of the caption "Loans and Receivables" as of December 31st, 2006 and 2005 is the following:

	Thousand Euros	
	2006	**2005**
By currency:		
Euros	95,921	14,240
Other currencies	4,275	62,383
	100,196	**76,623**
By residual maturity:		
Up to 3 months	95,862	67,850
Over 3 months to 1 year	649	1,428
Over 1 year to 5 years	3,216	6,512
Over 5 years	469	833
	100,196	**76,623**
By sector:		
Residents	12,925	25,839
Non-residents	87,271	50,784
	100,196	**76,623**

The detail by nature of "Loans and Advances to Credit Institutions" (not considering any impairment adjustment) as of December 31st, 2006 and 2005 is as follows:

	Thousand Euros	
	2006	**2005**
On Demand:		
Other	310	620
	310	620
Other loans and advances:		
Time deposits	94,105	64,652
	94,105	64,652
	94,415	**65,272**

The breakdown by type of the "Loans and Advances to Other Debtors", item of the caption "Loans and Receivables", as of December 31st, 2006 and 2005, (not considering any impairment adjustment) is the following:

	Thousand Euros	
	2006	**2005**
By type:		
Secured receivables	1,394	3,480
Credits to Spanish General Government	2,233	4,496
Other term receivables	1,318	1,587
Finance leases	--	43
Receivable on demand and other	137	149
Doubtful assets	1,115	1,989
Valuation adjustments	72	93
	6,269	**11,837**

The detail by Economic Activities of "Loans and Receivables" is the following:

Economic Activity	Percentage 2006	Percentage 2005
Financial intermediation	93.26	83.93
Public sector	3.09	7.28
Hotel industry	1.00	2.80
Trade	1.11	1.96
Other sectors with lesser participation	1.54	4.03
	100.00	100.00

The detail by geographic areas of the above caption is the following:

Geographic Area	Percentage 2006	Percentage 2005
Spain	13.07	33.78
EU countries	75.32	54.48
Other European countries	6.94	--
Arab countries	0.03	3.06
Latin American countries	1.35	4.59
Other	3.29	4.09
	100.00	100.00

The movements in 2006 and 2005 of the balance of "Impairment adjustments" per type of coverage of the caption "Loans and Receivables" are the following:

	Thousand Euros			
	Specific allowance	General allowance	Country-risk allowance	Total
Balance at the beginning of 2005	659	305	347	1,311
Net allocations through profit or loss	757	--	22	779
Increases	--	--	--	--
Decreases	(3)	(96)	(253)	(352)
Transfer to write-offs against provisions	(250)	--	--	(250)
Transfers	--	--	(65)	(65)
Other	26	2	3	31
Balance at the end of 2005	1,189	211	54	1,454
Net allocations through profit or loss	138	10	--	148
Increases	--	--	--	--
Decreases	(332)	(161)	(31)	(524)
Transfer to write-offs against provisions	--	--	--	--
Transfers	--	--	--	--
Other – Exchange difference	(66)	(6)	(4)	(76)
Balance at the end of 2006	929	54	19	1,002

8. HELD-TO-MATURITY INVESTMENTS

The detail of this caption on the accompanying Balance Sheets as of December 31st, 2006 and 2005 is the following:

	Thousand Euros	
	2006	2005
Spanish government securities	609	614
Non-Resident government securities	--	10
	609	624

The Bank has pledged as of December 31st, 2006 Spanish Government securities with the following breakdown:

- 601 thousand Euros (nominal), as coverage in favour of "Banco Bilbao Vizcaya Argentaria, S.A.", entity that represents Aresbank in the Banking Clearing House.

The movement of this caption in 2006 and 2005 was the following:

	Thousand Euros	
	2006	2005
Initial Balance	**614**	**619**
Increases	--	--
Decreases	(5)	(5)
Final Balance	**609**	**614**

These Spanish Government Debt Securities have been assigned to "Held-to-maturity " investment portfolio. Their market price as of December 31st, 2006 amounts to 603 thousand Euros, 616 thousand Euros as of December 31st, 2005.

The breakdown of these Spanish Government Debt Securities by maturity as of December 31st, 2006 and 2005 is as follows:

	Thousand Euros	
	2006	2005
Over 3 months to 1 year	609	--
Over 1 year to 5 years	--	614
	609	614

The Non-Resident government securities, which appear in the 2005 year, are bonds from Venezuela that have been amortised in advance during 2006.

9. NON-CURRENT ASSETS HELD FOR SALE

The breakdown of this item of the Balance Sheets as of December 31st, 2006 and 2005 is the following:

	Thousand Euros	
	2006	**2005**
Equity instruments	4,314	4,622
Tangible Assets	67	1,274
Tangible Assets for Own Use	*--*	*1,208*
Tangible Assets awarded	*67*	*66*
	4,381	**5,896**

Equity instruments as of December 31st, 2006 are shown in the following chart, as well as any other information of interest, according to the last available Financial Statements as of December 31st, 2006:

2006					Thousand of Euros		
COMPANY	**External Auditors**	**Corporate Domicile**	**Activity**	**Direct Participation %**	**Capital/ Reserves (*)**	**Result of the Year (*)**	**Net Investment**
INVERSIONES HOTELERAS LOS CABOS, S.A.	ERNST & YOUNG	PANAMA	Hotel Business	31.49	13,045	789	4,314

(*) AUDITED FIGURES

The detail for year 2005 is the following:

2005					Thousand of Euros		
COMPANY	**External Auditors**	**Corporate Domicile**	**Activity**	**Direct Participation %**	**Capital/ Reserves (*)**	**Result of the Year (*)**	**Net Investment**
INVERSIONES HOTELERAS LOS CABOS, S.A.	ERNST & YOUNG	PANAMA	Hotel Business	31.49	14,667	48	4,622

(*) AUDITED FIGURES

The detail as per the criterion used for determining the fair value of the elements included in this item of the Balance Sheets as of December 31st, 2006 and 2005 is the following:

	Thousand Euros	
	2006	**2005**
Items which fair value is:		
Determined taking quotation as reference	--	--
Estimated through valuations based on:		
Data from markets	67	66
Data from other sources	4,314	4,622
Other	---	1,208
	4,381	**5,896**

The movements during 2006 and 2005 of the items included in "Non-Current Assets Held for Sale" are the following:

	Thousand Euros	
	Equity Instruments	Tangible Assets
Balance as of January 1st, 2005	10,736	252
Additions for relocation within the Balance Sheet	--	2,713
Derecognition due to sale (Notes 24 y 31)	(6,883)	(1,691)
Other	--	--
Valuation adjustments	769	--
Balance as of December 31st, 2005	4,622	1,274
Reductions for relocation within the Balance Sheet	--	(1,207)
Derecognition due to sale	--	--
Other movements	(481)	(49)
Valuation adjustments (Note 30)	173	49
Balance as of December 31st, 2006	4,314	67

10. TANGIBLE ASSETS

a) *Movement*

The movements of the caption "Tangible Assets" of the Balance Sheets as of December 31st, 2006 and 2005 are the following:

	Thousand Euros		
	For own Use	Investment Property	Total
COST			
Balance as of January 1st, 2005	**15,815**	**19,308**	**35,123**
Additions	15	--	15
Decreases	(4,336)	--	(4,336)
Balance as of December 31st, 2005	**11,494**	**19,308**	**30,802**
Additions for relocation	1,577	--	1,577
Decreases	(1,154)	--	(1,154)
Balance as of December 31st, 2006	**11,917**	**19,308**	**31,225**
ACCUMULATED AMORTISATION			
Balance as of January 1st, 2005	**3,127**	**801**	**3,928**
Allowances	201	73	274
Decreases	(1,624)	--	(1,624)
Balance as of December 31st, 2005	**1,704**	**874**	**2,578**
Allowances	181	73	254
Decreases	(1,139)	--	(1,139)
Additions for relocation	392	--	392
Balance as of December 31st, 2006	**1,138**	**947**	**2,085**
NET TANGIBLE ASSETS			
Balances as of December 31st, 2005	*9,790*	*18,434*	*28,224*
Balances as of December 31st, 2006	*10,779*	*18,361*	*29,140*

The amount of the item " Decreases" during the year 2006, both in the cost and in the accumulated amortisation, corresponds mainly to the disposal of assets completely amortised.

During the year 2006 an amount of 1,577 thousand Euros has been reclassified following the current legal regulations, from the caption " Non-current Assets held for sale" to " Tangible Assets "(1,207 thousand Euros net value after depreciation). This amount corresponds to a property in Las Palmas de Gran Canaria. Actually, its rental is being negotiating. The allocation for depreciation from previous years has been also adjusted for an amount of 22 thousand Euros, included in the caption " Other losses" in the Income Statement (Note 31).

b) Tangible Assets for Own Use

The detail by nature of the items, which comprises the balance of the caption "Tangible Assets for Own Use" of the Balance Sheets as of December 31st, 2006 and 2005 is the following:

	Thousand Euros		
	Cost	Accumulated Amortisation	Net
Lands and buildings	9,835	(449)	9,386
Furniture	189	(113)	76
Installations	1,152	(1,041)	111
Computer equipment	94	(70)	24
Other	224	(31)	193
Balance as of December 31st, 2005	**11,494**	**(1,704)**	**9,790**
Lands and buildings	11,413	(914)	10,499
Furniture	126	(83)	43
Installations	126	(70)	56
Computer equipment	28	(25)	3
Other	224	(46)	178
Balance as of December 31st, 2006	**11,917**	**(1,138)**	**10,779**

The Bank did not have any asset leased out under operating lease at the date of the Balance Sheet.

c) Investment property

During 2006 and 2005, income from rents coming from investment properties amounted to 1,006 and 918 thousand Euros, respectively. They are entered in the item "Other Operating Income" of the Income Statement (Note 25). The operating expenses related to said investment properties amounted to 209 and 206 thousand Euros respectively, and are entered in the caption "Other Administrative Expenses". These expenses are passed on to the tenants and are recorded in "Other" under "Other operating income".

11. TAX ASSETS AND TAX LIABILITIES

It includes the amount of all assets of a tax nature, divided into "Current" (amounts of tax to be recovered during the next twelve months) and "Deferred" (amounts of tax to be recovered in future periods). The detail of these items as of December 31st, 2006 and 2005 is the following:

	Thousand Euros	
	2006	**2005**
Current:	1,995	1,087
Corporate tax	*289*	*310*
V.A.T.	*15*	*30*
Other (Note 30)	*1,691*	*747*
Deferred:	508	541
Other	*508*	*541*
	2,503	**1,628**

The balance of the item " Tax Assets" is not affected by the modification of the Income Tax rate (Note 5.14).

Likewise, the caption of "Tax liabilities" shows a balance as of December 31st, 2006 corresponding to the Capital transfer Tax, not yet settled with the Ministry of Treasury. This capital transfer tax is due to the capital increase carried out by the entity during November, 2006 (Notes 15 and 16).

	Thousand Euros	
	2006	**2005**
Current:	899	--
Other	*899*	--
	899	**--**

12. PREPAYMENTS AND ACCRUED INCOME (ASSETS) AND ACCRUED EXPENSES AND DEFERRED INCOME (LIABILITIES)

The detail of these two captions is the following:

	Thousand Euros			
	Assets		Liabilities	
	2006	**2005**	**2006**	**2005**
Prepaid expenses	9	13	--	--
For financial guarantees	--	--	27	19
Accrued expenses	--	--	542	564
Other	--	--	12	29
	9	**13**	**581**	**612**

The balance of the item "For financial guarantees" corresponds to commissions collected from guarantees granted to clients, which are apportioned on a straight line basis over the expected life of the guarantee.

"Accrued expenses" includes, mainly, the amount of 319 thousand Euros due to personnel expenses.

13. FINANCIAL LIABILITIES AT AMORTISED COST

The breakdown of this caption of the Balance Sheets as of December 31st, 2006 and 2005 is the following:

	Thousand Euros	
	2006	**2005**
Deposits from credit institutions	32,678	95,886
Deposits from other creditors	2,042	3,602
Other financial liabilities	674	572
	35,394	**100,060**

The detail by currency and residual maturity of "Financial Liabilities at Amortised Cost" of the Balance Sheets as of December 31st, 2006 and 2005 is as follows:

	Thousand Euros	
	2006	**2005**
By currency:		
In Euro	33,602	33,174
Other currencies	1,792	66,886
	35,394	**100,060**
By residual maturity:		
Up to 3 months	34,831	98,786
Over 3 months up to 1 year	542	1,253
Over 1 year up to 5 years	21	21
	35,394	**100,060**

The detail of "Deposits from Credit Institutions" of the Balance Sheets as of December 31st, 2006 and 2005 is as follows:

	Thousand Euros	
	2006	**2005**
Time deposits	30,000	93,137
Other accounts	2,672	2,522
Valuation adjustments	6	227
	32,678	**95,886**

The decrease in the caption "Deposit from credit institutions" is due to the conversion of the stand-by credit facility (74.5 million US$) granted by the shareholders into share capital on November 23rd, 2006 (Notes 15 and 16).

As of December 31st, 2006 Libyan Foreign Bank holds deposits in Aresbank amounting to 31 million Euros (31 million Euros during 2005).

The detail of the caption "Deposits from Other Creditors" of the Balance Sheets as of December 31st, 2006 and 2005 is the following:

	Thousand Euros 2006	Thousand Euros 2005
- Other resident sectors:	717	841
On Demand deposits:	404	460
Current accounts	*385*	*310*
Other	*19*	*150*
Time Deposits:	309	377
Fixed-term deposits	*309*	*377*
Valuation adjustments	4	4
- Other non-resident sectors:	1,325	2,761
On Demand deposits:	781	607
Current accounts	*727*	*594*
Other	*54*	*13*
Time Deposits:	544	2,154
Fixed-term deposits	*544*	*2,154*
	2,042	**3,602**

14. PROVISIONS

The breakdown of this caption of the Balance Sheets as of December 31st, 2006 and 2005 is the following:

	Thousand Euros 2006	Thousand Euros 2005
Provisions for taxes	846	895
Provisions for contingent exposures and commitments	1,557	1,587
Other provisions	334	1,344
	2,737	**3,826**

The movements of the caption "Provisions" in 2006 and 2005 are as follows:

	Thousand Euros			
	Provisions for Taxes	**Prov.Contingent Exposures and Commitments**	**Other Provisions**	**Total**
Balance at the beginning of 2005	**2,591**	**3,005**	**6,617**	**12,213**
Net allowances through profit or loss	175	69	921	1,165
Allowances released	--	(1,430)	(898)	(2,328)
Utilizations	(1,871)	--	(7,285)	(9,156)
Transfers	--	(57)	--	(57)
Other – Exchange difference	--	--	1,989	1,989
Balance at the end of 2005	**895**	**1,587**	**1,344**	**3,826**
Net allowances through profit or loss	172	64	83	319
Allowances released	(6)	(80)	(274)	(360)
Utilizations	(215)	--	(819)	(1,034)
Transfers	--	--	--	--
Other – Exchange difference	--	(14)	--	(14)
Balance at the end of 2006	**846**	**1,557**	**334**	**2,737**

The balance of the caption "Provisions for Taxes" as of December 31st, 2006 includes, among others, a provision of 356 thousand Euros corresponding to the Personal Income Tax of the year 2000 (Note 19) and other of 309 thousand Euros due to the capital transfer tax for properties auctioned.

The detail per type of coverage of "Provisions for Contingent Exposures and Commitments" is the following:

	Thousand Euros	
	2006	2005
Specific provision	1,375	1,331
Generic provision	98	162
Country-risk provision	84	94
Total	**1,557**	**1,587**

"Provisions for Contingent Exposures and Commitments" (specific provision) includes, mainly, an amount of 1,046 thousand Euros corresponding to a legal suit (2,190 thousand Euros of principal) in which Aresbank is vicarious civil responsible. The rest of the caption " Contingent Exposures and commitments" is considered as a remote risk due to their evolution (Note 18.a).

The balance of "Other Provisions" (334 thousand Euros) as of December 31st, 2006 is much lower than the one shown the previous year (1,344 thousand Euros), mainly due to the recuperation of funds (274 thousand Euros) and the utilization of the provision (757 thousand Euros) to pay the legal costs in the Daylong Island Española, S.A. legal proceedings.

15. OWN FUNDS

The entity's Net-worth amounted to 10,078 thousand Euros at December 31st, 2005, below the legal minimum required to practice banking activities, fixed in 18,030 thousand Euros by article 2 of Royal Decree 1245/1995, of July 14th, on Banks establishment, cross-border activity and other matters relating to the credit entities' legal system. As it is explained in Note 16, the Extraordinary General Shareholders' Assembly, held on November 23rd, 2006, agreed to carry out a capital increase for an amount of 89,922,240 Euros, being the net-worth of the Bank totally re-established. The Bank shows at the end of the year 2006, a capital solvency ratio of 156.7%, that exceeds by far the minimum 8% required by the Spanish Monetary Authorities.

As of December 31st, 2006, the computable own funds of Aresbank, including the year's profit, amounted to 99.3 million Euros, having a surplus of resources for an amount of 93.7 million Euros.

The movements of the "Own Funds" during year 2006 and 2005 are the following:

	Thousand of Euros			
	Capital	Reserves (carry -forward losses)	Profit or Loss for the year	TOTAL
Balance as of 31/12/04	**18,032**	**(4,726)**	**(4,380)**	**8,926**
Profit distribution	--	(4,380)	4,380	--
Other	--	123	--	123
Profit for the year	--	--	1,029	1,029
Balance as of 31/12/05	**18,032**	**(8,983)**	**1,029**	**(8,983)**
Profit distribution	--	1,029	(1,029)	--
Capital decrease	(7,952)	7,951	--	(1)
Capital increase	89,922	(899)	--	89,023
Profit for the year	--	--	49	49
Balance as of 31/12/06	**100,002**	**(902)**	**49**	**99,149**

16. SHARE CAPITAL

The purchase of the Spanish shareholders' stake (34.57%) by Libyan Foreign Bank was concluded on November 13th, 2006.

On November 23rd, 2006, the new Extraordinary General Shareholders' Assembly agreed to reduce the share capital to absorb the accumulated losses (7,952 thousand Euros) by means of the reduction of the nominal value of shares of the Bank (5,152 €) to a new face value of 2,880 Euros each. As a consequence of the above, the share capital of Banco Árabe Español, S.A. is reconverted to 10,080 thousand Euros and it is composed by 3,500 registered shares with a face value of 2,880 Euros each.

At the same time, the shareholders in order to comply with the current regulations about the legal minimum net-worth required to practice banking activities, agreed to increase the share capital in an amount of 89,922,240 Euros by means of issuance of 31,223 new shares, having each a nominal value of 2,880 Euros, with the same nominal value and rights of the previously existing shares, in the following terms:

a) The stand-by credit facility (74,5 millions US$), main financing resource of the entity, was capitalized for a counter value of 58,008,960 Euros, by issuing 20,142 new shares, with a nominal value of 2,880 Euros each.

b) Additional monetary contribution of 31,913,280 Euros from Libyan Foreign Bank by issuing 11,081 new shares, with a nominal value of 2,880 Euros each.

The final result of the reduction and increase of share capital, as well as the new composition of the shareholders is shown in the following chart:

	Amount (€)	Nº of shares	% owned
Libyan Foreign Bank	76,423,680	26,536	76.42
Kuwait Investment Company S.A.K.	23,163,840	8,043	23.16
Crédit Populaire d'Algérie	414,720	144	0.42
	100,002,240	34,723	100.00

There are no convertible shares or any other securities, which might confer similar rights.

Banco Árabe Español, S.A. does not hold any of its own shares, either directly or indirectly through subsidiaries.

17. RESERVES

The breakdown of the reserves as of December 31st, 2006 and 2005 is as follows:

	Thousand Euros	
	2006	2005
Legal Reserve	--	--
Results from previous years	(3)	(8,983)
Other negative reserves	(899)	--
Total	(902)	(8,983)

The caption "Other negative reserves" shows the accrued corporate tax that corresponds to the capital increase carried out in November 2006, that following the current rules, has to be debited directly to the net-worth.

LEGAL RESERVE

According to the Companies Act, companies must transfer 10% of annual profits to the legal reserve until it reaches, at least, a 20% of capital. The legal reserve can be used to increase capital, provided that the remaining legal reserve balance does not fall below 10% of the final stock capital. Except for this purpose, whilst the legal reserve does not exceed the limit of 20% of capital, it can only be used to compensate losses, if there are no other reserves available.

18. OFF-BALANCE SHEET ITEMS

"Off-balance sheet items" shall include balances representing rights, obligations and other legal situations that in the future may have an impact on net assets, as well as any other balances needed to reflect all transactions entered into by the Bank although they may not impinge their net assets.

a) Contingent exposures

"Contingent exposures" comprises the amounts which the entity will have to pay on behalf of third parties if the original obligors do not do so, as a result of the commitments undertaken by the entity in the course of its habitual activity.

The breakdown as of December 31st, 2006 and 2005 is the following:

	Thousand Euros	
	2006	**2005**
Financial guarantees	54,005	36,277
Other Bank guarantees and indemnities	*20,102*	*17,136*
Irrevocable issued documentary credits	*95*	*--*
Irrevocable confirmed documentary credits	*33,808*	*19,141*
	54,005	**36,277**
Memorandum item: Doubtful contingent exposures (Note 14)	8,630	8,786

The detail by geographic area of "Other Bank guarantees & indemnities" is the following:

	Other Bank guarantees			
	Thousand Euros		**Percentage**	
GEOGRAPHIC AREA	**2006**	**2005**	**2006**	**2005**
Spain	**19,733**	**16,523**	**98**	**97**
E.U. Countries	**--**	**--**	**--**	**--**
Arab countries	**369**	**613**	**2**	**3**
Libya	*--*	*202*	*--*	*1*
Kuwait	*--*	*--*	*--*	*--*
Algeria	*--*	*--*	*--*	*--*
Other Arab countries	*369*	*411*	*2*	*2*
Other countries	**--**	**--**	**--**	**--**
Total	**20,102**	**17,136**	**100**	**100**

The detail by geographic area of "Irrevocable documentary credits issued and confirmed" is the following:

	Irrevocable Documentary Credits Issued and Confirmed			
	Thousand Euros		**Percentage**	
GEOGRAPHIC AREA	**2006**	**2005**	**2006**	**2005**
Spain	**95**	**--**	**--**	**--**
E.U. countries	**1,564**	**1,292**	**5**	**7**
Arab countries	**32,244**	**17,495**	**95**	**92**
Libya	*25,795*	*5,360*	*76*	*28*
Kuwait	*103*	*--*	*--*	*--*
Algeria	*5,110*	*10,881*	*15*	*57*
Other Arab countries	*1,236*	*1,254*	*4*	*7*
Other countries	**--**	**354**	**--**	**1**
Total	**33,903**	**19,141**	**100**	**100**

The income obtained from these guarantee transactions are recognized in the Income Statement as "Fee and Commission Income" (Note 22).

b) Contingent commitments

Its breakdown is the following:

	Thousand Euros 2006	Thousand Euros 2005
Drawable by third parties:	3,242	38
By other resident sectors	*3,242*	*38*
Other contingent commitments:	6	6
Documents delivered to clearing houses	*6*	*6*
	3,248	44

19. TAX MATTERS

Profits, adjusted in accordance with fiscal regulations, are taxed at a 35% rate. The resulting quota can be reduced applying certain legal deductions.

Tax declarations cannot be considered definitive until either the Tax Authorities have inspected them or until the inspection period has legally expired. At present, this is a four-year period to be counted from the end of the tax declaration period.

The years of the Banco Arabe Español, S.A. subject to Tax Inspection are 2003 onwards, except for the Corporate Income Tax that is subject to inspection from 2002 onwards.

The conciliation between the annual profit and the taxable income of the Corporate Tax is the following:

	Thousand of Euros 2006	Thousand of Euros 2005
Accounting profit for the year	**49**	**1,029**
Timing differences:		
Positives	**232**	**1,126**
- Pensions Fund allocation	10	14
- Provisions	213	1,112
- Other	9	--
Negatives	**(1,676)**	**(1,389)**
- Externalised Pension Fund	(499)	(499)
- Bad debts Provision recovered	(278)	(890)
- Corporate Tax due to the increase of capital	(899)	--
Total:	**(1,395)**	**766**
Offset of prior year negative taxable bases	**--**	**(766)**
Negative taxable bases for the year	**1,395**	**--**
Taxable profit	**--**	**--**

The Bank has negative taxable bases (carry-forward losses) for an amount of 127,736 thousand Euros that can be offset by the profits to be obtained along the coming fifteen years and which breakdown is as follows :

	Thousand Euros							
Year	1994	1997	1999	2000	2001	2002	2003	2004
Amount	25,355	1,547	26,556	12,904	8,844	1,842	2,643	48,045

The different interpretations that may be made of the Spanish tax regulations applicable to the entity operations might give rise to contingent tax liabilities for the open years that cannot be objectively quantified. Nevertheless, the Bank's Directors, based on the opinion of the Tax Advisors, consider that these possible contingent liabilities would not significantly affect these Annual Accounts.

20. INTEREST AND SIMILAR INCOME

This chapter of the Income Statement comprises the interest accrued in the year on all financial assets with an implicit or explicit return, calculated by applying the effective interest rate method. Interest is recorded gross, without deducting any withholding tax.

The breakdown of this chapter as of December 31st, 2006 and 2005 is the following:

	Thousand Euros	
	2006	2005
Cash balances with central banks	41	37
Loans and advances to credit institutions	3,094	2,114
Loans and advances to other debtors	400	636
Debt securities	27	27
Doubtful assets	94	129
Other interest	--	3
	3,656	2,946

The detail, as per origin, of the most significant "Interest and Similar Income" accrued by Aresbank in 2006 and 2005 is as follows:

	Thousand Euros	
	2006	2005
Cash balances with central banks	41	37
Loans and receivables	3,588	2,882
Held-to-maturity investments	27	27
	3,656	2,946

21. INTEREST EXPENSE AND SIMILAR CHARGES

This chapter of the Income Statement records the interest accrued in the period on all financial liabilities with an implicit or explicit return. It is calculated by applying the effective interest rate method.

Its breakdown as of December 31st, 2006 and 2005 is the following:

	Thousand Euros	
	2006	2005
Deposits from central banks	10	16
Loans and advances from credit institutions	4,250	3,312
Loans and advances from other creditors	108	137
	4,368	3,465

The origin of the most significant "Interest and Similar Charges" in 2006 and 2005 is as follows:

	Thousand Euros	
	2006	**2005**
Financial liabilities at amortised cost	4,368	3,465
	4,368	**3,465**

22. FEE AND COMMISSION INCOME

It comprises the amount of all fees and commissions accrued in favour of the entity in the accounting year, except those than form an integral part of the effective interest rate on financial instruments that are included in "Interests and Similar Income".

The detail of this chapter of the Income Statement as of December 31st, 2006 and 2005 is the following:

	Thousand Euros	
	2006	**2005**
Arising from contingent exposures	824	978
Arising from exchange of foreign currencies and banknotes	3	7
Arising from collection and payment services	64	62
Other commissions	102	95
	993	**1,142**

23. FEE AND COMMISSION EXPENSE

It shows the amount of all fees and commissions paid or payable by the entity in the accounting year, except those that form an integral part of the effective interest rate on financial instruments that are included in "Interest and Similar Charges".

The detail of this chapter of the "Income Statement" as of December 31st, 2006 and 2005 is as follows:

	Thousand Euros	
	2006	**2005**
Fees and commissions assigned to other entities and correspondents:	327	356
Other	*327*	*356*
Other fees and commissions	8	49
	335	**405**

24. GAINS AND LOSSES ON FINANCIAL ASSETS AND LIABILITIES (NET)

This item of the "Income Statement" amounts to a loss of 5 thousand Euros as of December 31st, 2006 and to a profit of 1,156 thousand Euros as of December 31st, 2005. In the year 2005, the main amount of 1,161 thousand Euros corresponded to the disposal of the shares of a company that the Bank held in its portfolio.

25. OTHER OPERATING INCOME

It includes the income from other operating activities of credit institutions not included in other captions.

The detail of this chapter of the "Income Statement" as of December 31st, 2006 and 2005 is the following:

	Thousand Euros	
	2006	2005
Operating income from investment properties (Note 10.c)	1,006	918
Other	238	255
	1,244	1,173

26. PERSONNEL EXPENSES

The personnel of the Bank as of December 31st, 2006 and 2005 is the following:

	No. of Employees	
	2006	2005
Senior Managers	2	2
Managers	4	8
Administrative Staff	36	39
Other	1	2
	43	51

The breakdown of Personnel expenses caption at December 31st, 2006 and 2005 is as follows:

	Thousand Euros	
	2006	2005
Wages and salaries	2,700	3,010
Social Security expenses	534	614
Transfers to defined contribution plans	230	238
Severance payments	1,155	1,987
Other personnel expenses	324	332
	4,943	6,181

27. OTHER ADMINISTRATIVE EXPENSES

The breakdown of this caption as of December 31st, 2006 and 2005 is the following:

	Thousand Euros	
	2006	**2005**
Property, fixtures and materials	509	581
Rental	*163*	*207*
Maintenance of fixed assets	*242*	*260*
Lighting, water and heating	*85*	*96*
Printing and office materials	*19*	*18*
Communications	103	130
Technical reports & Legal and lawyer expenses	221	200
Surveillance and security carriage services	58	58
Insurance and self-insurance premiums	16	20
Governing and control bodies	558	628
Entertainment and staff travel expenses	55	61
Contributions and taxes	172	262
Other expenses	109	127
	1,803	**2,067**

28. REMUNERATION AND OTHER COMPENSATIONS TO THE BOARD OF DIRECTORS AND TOP MANAGEMENT OF THE BANK

a) Board of Directors

The detail of the Attendance Fees (before taxes) received by the Bank's Directors in 2006 and 2005 is the following:

	Thousand Euros	
Directors	**2006**	**2005**
Mr. Juan Carlos Montañola (*)	2.5	--
Mr. Ahmed Mohamed Aburkhis (*)	2.0	--
Mr. Luis Vañó (**)	9.0	9.0
Mr. Omar Mohamed A. Seghayer	6.0	10.5
Mr. Abduelhadi Taher Giuma	9.5	10.5
Mr. Abdurauf Shneba	9.5	9.0
Mr. Mehemed A. Razzaghi	9.5	9.0
Mr. Ahmad Abdulqader Mohammad	8.0	7.5
Mr. Ahmad M.A. Bastaki (***)	7.5	7.5
Mr. Yousef M.A.Y. Alabdulrazzaq (***)	7.5	10.5
Mr. Khalid H.I. Al-Shayea	9.5	9.0
Mr. Kamel Aït-Younes (Crédit Populaire d'Algérie)	6.0	9.0
Mr. Mohamed Djellab (Crédit Populaire d'Algérie)	3.5	--
Mr. Julio Alvarez Cabo (*)	2.5	--
D. Carlos Kinder Espinosa (*)	2.5	--
D. Amado Subh Subh (*)	2.5	--
S.E.P.I. (***)	6.0	9.0
Mr. Laureano Barreiro (***)	6.0	9.0
Mr. Augusto Caro (Banco Sabadell) (***)	6.0	10.5

(*) Appointed at the General Shareholders' Assembly on November 23rd , 2006.
(**) Resigned on November 24th, 2006.
(***) Resigned on November 23rd, 2006.

Banco Arabe Español, S.A. has no other obligations derived from pensions or life insurance premiums with any of the non executive members of the Board of Directors.

The Bank does not hold direct risks with any Non-Executive Director as of December 31st, 2006.

The share participations in the capital of other financial entities or positions held in them by the members of the Board of Directors as of December 31st, 2006 are the following:

- The members of the Board of Directors of the Bank do not have any share participation in the capital of other financial entities higher than 0.0001% or hold any position in them, except for Crédit Populaire d'Algérie, which hold the following participations in the following financial institutions:

  - Banque du Maghreb Arabe pour l'Industrie et le Commerce "BAMIC": 12.50%
  - Programme de Financement du Commerce Arabe PFCA : 0.01%

  Mr. Omar Seghayer holds the position of Chairman of the Board of Directors of Umma Bank.

- In the case of Directors that are companies, none of their individual representatives have any share participation in the capital of other financial entities or hold any position in them.

b) Top Management (Executive Directors)

The breakdown of the retribution received by the General Management of the Bank in the years 2006 and 2005 is the following (the attendance fees to the Boards are not included in this chart because they are included in a different caption) :

		Thousand Euros		
Year	**Nº of Managers**	**Salary**	**Other Remunerations**	**Total**
2006	2	468	68	536
2005	2	439	66	505

The amounts debited for pension funds in the Income Statement of the Bank in 2006 and 2005 amounted to 30 thousand Euros and 16 thousand Euros, respectively.

The direct risks held with the General Management as of December 31st, 2006 and 2005 amounted to 7 thousand Euros and 18 thousand Euros, respectively.

29. DEPRECIATION AND AMORTISATION

The detail of this caption as of December 31st, 2006 and 2005 is the following:

	Thousand Euros	
TANGIBLE ASSETS	**2006**	**2005**
Property	137	118
Furniture and installations	117	156
	254	274

30. IMPAIRMENT LOSSES (NET)

The detail of this caption is the following:

	Thousand of Euros	
	2006	**2005**
Investments	3,802	(227)
Allowances	*(148)*	*(779)*
Recoveries of loans written off	*3,426*	*201*
Other recoveries	*524*	*351*
Non-current Assets held for sale (Note 9)	173	170
	3,975	**(57)**

We have to stand out the recovery of funds referred to the " Sánchez Polaina" Group, for a total amount of 3,364 thousand Euros, which breakdown is the following:

- 1,444 thousand Euros for advance payment of the renegotiated debt of Algeria

- 1,691 thousand Euros for the upholding of an appeal against the enforcement of a guarantee for exports operations by the Tax Authorities (Note 11). This matter was pending of payment by the Tax Authorities as of the end of the year (Note 3.i)

- 229 thousand Euros for other recoveries.

31. OTHER GAINS AND LOSSES

These chapters of the Income Statement include income and losses from non-ordinary activities that are not included elsewhere.

The detail of "Other Gains" in the Income Statement as of December 31st, 2006 and 2005 is the following:

	Thousand Euros	
	2006	**2005**
Gains on disposals of tangible assets	--	6,046
Other:	2,089	1,386
Other	*2,089*	*1,386*
	2,089	**7,432**

The amount shown by the item "Gains on disposals of tangible assets" corresponds to the capital gain obtained for the sale of the Bank's branch building in Marbella.

The amount of 2,089 thousand Euros shown by the item " Other ", mainly comes from the upholding of several tax appeals, as well as the amount of 1,386 thousand Euros of 2005 .

The detail of "Other losses" of the Income Statement of the years ended on December 31st, 2006 and 2005 is the following:

	Thousand Euros	
	2006	**2005**
Other:		
Other	*63*	*1,556*
	63	**1,556**

The amount of 63 thousand Euros in 2006 contains as main item an amount of 22 thousand Euros for the adjustment in the allocation for the amortisation of previous years of a property reclassified as " Tangible Asset for Own use "(Note 10).

The amount of 1,556 thousand Euros of 2005, rises from the extra-judicial settlement agreement reached by the Bank to put an end to several legal proceedings, in its condition of defendant.

32. ADDITIONAL INFORMATION

a) Fair value of assets and liabilities

As mentioned in Note 5, most of the financial assets and liabilities of the Bank are recognised for their amortised cost in the accompanying Balance Sheets.

Their fair value do not present significant difference from the amounts that are recorded as they had been contracted at short-term and at market interest rate.

b) Most significant balances with related companies.

The most important balances with related companies as of December 31st, 2006 and 2005 are the following:

	Thousand Euros	
	2006	**2005**
ASSETS		
Loans to customers (*)	1,009	2,153
LIABILITIES		
Deposits from customers	649	1,253

(*) Impairment adjustments excluded

In addition, Libyan Foreign Bank maintains the deposit mentioned in Note 13.

c) Transactions with related companies

The most relevant transactions with related companies as of December 31st, 2006 and 2005 are the following:

	Thousand Euros	
	2006	**2005**
Interest collected	282	190
Interest paid	97	125

In addition, the interest and commissions paid to Aresbank's shareholders for the deposits held in the Bank amounted to 3,370 thousand Euros in 2006 and 3,546 thousand Euros in 2005.

PROPOSED DISTRIBUTION OF ANNUAL PROFIT

	Thousand Euros
	2006
PROFIT BEFORE PROVISIONS AND TAXES	517
PROVISIONS	(468)
	49
CORPORATE TAX ESTIMATION	-
NET PROFIT	49
DISTRIBUTION	
LEGAL RESERVE	-
VOLUNTARY RESERVE	-
DIVIDENDS	-
DIRECTORS' COMPENSATION	-
RESULTS FROM PREVIOUS YEARS	3
OTHER NEGATIVE RESERVES	46
	49

RESOLUTIONS THAT THE BOARD OF DIRECTORS SUBMITS TO THE UNIVERSAL ORDINARY GENERAL SHAREHOLDERS' MEETING OF BANCO ÁRABE ESPAÑOL, S.A. TO BE HELD ON MARCH 30th, 2007

1. Approval of the Audited Annual Accounts and the Directors' Report for the fiscal year 2006.

2. Approval of the application of 2006 fiscal year results.

3. Approval and ratification, as the case may be, of the conduct of corporate affairs carried out by the Board of Directors during the year 2006.

4. Approval of the changes, as the case may be, in the Board's members.

5. Renewal of the appointment of the External Auditors.

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